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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 PM-05 NSC-05 SP-02 SS-15 CIAE-00
DODE-00 INR-10 NSAE-00 PA-01 ICA-11 AID-05 EB-08
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----------010771 070403Z /65
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FM AMEMBASSY LIMA
TO SECSTATE WASHDC 9443
INFO AMEMBASSY BOGOTA
AMEMBASSY CARACAS
AMEMBASSY LA PAZ
AMEMBASSY QUITO

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E.O. 11652: N/A
TAGS: EINV, ECIN, PE
SUBJECT: CAF OPERATIONS IN PERU

REF: CARACAS 2636

1. THE CORPORACION ANDINA DE FOMENTO (CAF) IS INCREASING ITS OPERATIONS IN PERU, BOTH IN ACTUAL TERMS AND AS A SHARE OF CAF OPERATIONS. IN 1974 PERU'S $558,000 ACCOUNTED FOR ONLY 3 PERCENT OF THE LOANS APPROVED BY CAF. IN 1977 CAF APPROVED $20.8 MILLION FOR PERU, REPRESENTING 54 PERCENT OF ITS OVERALL OPERATIONS. PROJECTS UNDER CONSIDERATION FOR 1978 TOTAL $53.4 MILLION. AT THE CLOSE OF 1977 AFTER 7-1/2 YEARS OF OPERATIONS PERU HAS RECEIVED 21 PERCENT OF CAF APPROVED LOANS.

2. IN 1977 TWO PETROPERU PROJECTS ACCOUNTED FOR VIRTUALLY THE ENTIRE AMOUNT; THE NORTHERN SPUR PIPELINE ($18.9 MILLION) AND A CARBON BLACK PLANT ($1.2 MILLION). PLANEED PROJECTS FOR 1978 ARE MORE DIVERSIFIED. THEY INCLUDE THE ENDEPALMA PALM OIL ENTERPRISE ($14 MILLION), THE
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PARAMONGA NEWSPRINT PLANT ($12 MILLION), THE SOUTHERN METALWORKING CENTER (CMMS) IN AREQUIPA ($4.5 MILLION), THE RIO SECO INDUSTRIAL PARK ALSO IN AREQUIPA ($4.5 MILLION), THE PARAMONGA POLYVINYL CHLORDIE PLANT EXPANSION $4.0 MILLION), AND AIRCRADT LEASING FOR AEROPERU $3.8 MILLION.

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3. IN ADDITION CAF RECENTLY ANNOUNCED LINES OF CREDIT
TO COFIDE AND THE BANCO INDUSTRIAL TOTALING $23
MILLION (CARACAS 2636). A $13 MILLION LINE OF CREDIT
TO THE BANCO INDUSTRIAL IS INTENDED TO STIMULATE NON-
TRADITIONAL EXPORTS. CAF SOURCES HERE SAY IT WILL
PRIMARILY BE USED TO FINANCE SALE SBY PERUVIAN SHIP-
BUILDING FIRMS. THE COFIDE LINE WILL PERMIT COFIDE
TO ACT AS A COOPERATING LENDING INSTITUTION PROCESSING
SMALL PROJECTS (LESS THAN ONE MILLION) THAT NEED NOT
BE FOWARDED TO CAF FOR ACTION.

4. CAF LOANS FALL SOMEWHERE IN BETWEEN COMMERICAL BANK
RATES AND CONCESSIONARY LENDING FROM IFIS. RATES ARE
FIXED AT 6 PERCENT FOR PRE-INVESTMENT LOANS AND 9 PERCENT FOR ALL
OTHER

TYPES. PERIOD OF REPAYMENT VARIES WITH THE AMOUNT AND NATURE
OF THE LOAN. A $2 MILLION LOAN WILL BE GIVEN 7 OR 8 YEARS
WHILE A $20 MILLION LOAN COULD BE EXTENDED UP TO
15 YEARS WITH A THREE YEAR GRACE PERIOD.

5. IN A PRESS CONFERENCE HELD HERE MARCH 23 CAF VICE
PRESIDENT JAVIER SILVA RUETE ANNOUNCED THAT 1978 OPERATIONS
IN PERU COULD TOTAL $120 MILLION. WHEN EMBOFF
ASKED ABOUT THE DISCREPANCY BETWEEN THIS FIGURE AND
THE TOTAL OF A LIST OF PROJECTS PROVIDED EARLIER,
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CAF/PERU OFFICER ALFREDO LLOSA EXPLAINED THE LARTER
FIGURE WAS BASED ON RECENT DISCUSSIONS WITH AEROPERU
OFFICERS WHO ARE LOOKING FOR CAF FOR APPROXIMATELY $60
MILLION TO FINANCE THE PURCHASE OF TWO WIDE-BODIED
AIRCRAFT. AEROPERU MUST CHOOSE BETWEEN THE AIR-BUS
A-300 AND THE LOCKHEED 1011 BEFORE THE PROJECT CAN BE
FORMALLY CONSIDDERED.

6. PERU, ALONG WITH ECUADOR, WILL BE THE MAJOR
BENEFICIARIES OF PROJECTS PLANNED FOR THIS YEAR.
HOWEVER, THE DIFFICULTY OF RASING THE LOCAL CAPITAL
REQUIRED TO IMPLENT MANY OF THESE PROJECTS REDUCES
THE PROSPECT OF CAF MAKING DRAMATICALLY LARGE INFUSIONS
OF CPITAL IN THE NEAR TERM. CAF CAN PROVIDE UP TO 70
PER CENT FINANCING OF PROJECTS (AND UP TO 100 PER CENT
IN THE CASE OF AIRCRAFT LEASING). EVEN SO, THE INABILITY
OF THE GOP TO PROVIDE THE REQUIRED COUNTERPART FINANCING
IN A PERIOD OF RAPIDLY RISING COSTS WAS THE PRIME REASON
FOR THE CANCELLATION OF A $17.5 MILLION PROJECT AT BAYOVAR
TO EXPLOIT PHOSPHORIC ROCK. THIS AND A FEW SMALLER
CANCELLED PROJECTS ACCOUNTED FOR ALMOST A THIRD OF THE
TOTAL OF LOANS APPROVED THROUGH 1977.

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7. COMMENT: IT SEEMS PARADOXICAL THAT CAF WOULD BE INCREASING ITS OPERATIONS IN PERU AT A TIME WHEN CREDIT FROM MORE TRADITIONAL SOURCES HAS BECOME INCREASINGLY DIFFICULT TO OBTAIN. THE EXPLANATION, CONFIRMED BY CAF OFFICERS HERE, LIES PRIMARILY IN THE FACT THAT PERU PROVIES ONE OF THE FIVE CO-EQUAL DIRECTORS OF CAF AND THUS CAN INFLUENCE DECISIONS TO A FAR GREATER DEGREE THAN IS THE CASE WITHOTHER INSTITUTIONS. THE OTHER MEMBER COUNTRIES TEND TO BE SYMPATHETIC TO PERU'S PRESENT NEEDS, REFLECTING THE BASIC ANDEAN PACT GOAL OF ASSURING BALANCED ECONOMIC GROWTH TO THE EXTEND POSSIBLE. FROM PERU'S STANDPOINT CAF IS AN ATTRATIVE SOURCE OF FINANCING NOT ONLY BECAUSE OF THE AVAILABILITY OF CREDIT, BUT BECAUSE
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THE 7-15 YEAR MATURITIES ARE MORE FAVORABLE THAN SHORTER-MATURING COMMERICAL LOANS, FINALLY, PERU SIMPLY SEEMS TO HAVE BEEN IN BETTER POSITION THAN THE OTHER COUNTRIES TO TAKE ADVANTAGE OF A CAF POLICY DECISIONMADE ALMOST TWO YEARS AGO TO BROADEN THE CRITERIA FOR JUDGING A PROJECT'S CONTRIBUTION TO REGIONAL INTEGRATION. THE NORTHERN SPUR PIPELINE, FOR INSTANCE, WOULD NOT HAVE QUALIFIED FOR CAF FINANCING UNDER THE OLDER MORE RIGID CRITERIA. SOME BELIEVE THAT THIS AGGRESSIVENESS IN PUTTING FORTH NEW PROJECTS IS PARTLY DUE TO THE APPOINTMENT TWO YEARS AGO OF JAVIER SILVA RUETE AS CAF COORDINATOR WITH THE ANDEAN PACT JUNTA. SILVA RUETE IS A DYNAMIC PERUVIAN WITH A BROAD KNOWLEDGE OF THE PERUVIAN ECONOMY, INSTITUTIONS, AND PERSONALITIES AND HAS UNDOUBTEDLY BEEN INSTRUMENTAL IN PERU'S OBTAINING A LARGER SHARE OF CAF FUNDS.

8. LIST OF PROPOSED PROJECTS BEING POUCHED TO ARA/ECP AND COMMERCE (OIM/BREWER).
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